

BEFORE THE PUBLIC SERVICE COMMISSION OF
THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF
DELMARVA POWER & LIGHT COMPANY FOR A
CHANGE IN NATURAL GAS BASE RATES
(FILED DECEMBER 7, 2012)

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) PSC DOCKET NO. 12-546
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FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

September 30, 2013

Mark Lawrence
Hearing Examiner

TABLE OF CONTENTS

	<u>Page</u>
I. APPEARANCES	1
II. BACKGROUND	2
III. BRIEF SUMMARY OF THE PARTIES' POSITIONS	8
IV. SUMMARY OF THE PREFILED TESTIMONY	9
A. Delmarva's Direct Testimony	9
B. Delmarva's Supplemental Testimony	13
C. Staff	14
D. Public Advocate	16
E. Caesar Rodney Institute	17
F. Delmarva's Rebuttal Testimony	17
V. THE PROPOSED SETTLEMENT	19
VI. THE AUGUST 27, 2013 EVIDENTIARY HEARING	24
VII. DISCUSSION	27
VIII. RECOMMENDATIONS	29

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OF DELMARVA POWER & LIGHT COMPANY)
FOR A CHANGE IN NATURAL GAS BASE) PSC DOCKET NO. 12-546
RATES (FILED DECEMBER 7, 2012))

FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

I. APPEARANCES

On behalf of the Applicant, Delmarva Power & Light Company
("Delmarva") or ("the Company"):

By: TODD L. GOODMAN, ESQ., Associate General Counsel
PAMELA J. SCOTT, ESQ., Assistant General Counsel
RICHARD M. LORENZO, ESQ., Loeb & Loeb, LLP
THEODORE F. DUVER, ESQ., Loeb & Loeb, LLP

On behalf of the Public Service Commission Staff ("Staff"):

BY: JAMES MCC. GEDDES, ESQ., Ashby & Geddes
JULIE M. DONOGHUE, ESQ., Deputy Attorney General

On behalf of the Division of the Public Advocate ("DPA" or "Public Advocate"):

BY: REGINA A. IORII, ESQ. DEPUTY ATTORNEY GENERAL

Additional Interveners:

Representative John A. Kowalko, Jr., 25th District
David T. Stevenson, Caesar Rodney Institute ("CRI")
Kim Robert Scovill, Hillstream II Property Owners
Association ("Hillstream")

II. BACKGROUND

A. DELMARVA'S GAS BASE RATE APPLICATION

1. On December 7, 2012, Delmarva Power & Light Company ("Delmarva" or "Company")¹ filed with the Delaware Public Service Commission ("the Commission") an Application seeking (1) approval of an increase in gas delivery base rates of \$12,174,435, or 7.87% of total existing revenues; (2) approval of a Cost of Equity ("COE") of 10.25%; (3) approval to implement a new Utility Facility Relocation Charge Rider ("Rider UFRC"), which is a mechanism to recover costs related to relocation of the Company's delivery facilities as required to accommodate projects sponsored by the Delaware Department of Transportation or other State agencies; (4) approval of a modification to the tariff relating to natural gas line extensions; (5) a waiver of Section 5.3.14 of Delaware's Minimum Filing Requirements ("MFRs") requiring expense information to be filed relating to certain affiliated transactions; and (6) approval of certain miscellaneous tariff changes.² (Applic, Exh. 2, ¶6.)

2. According to Delmarva's Application:

The most significant factor supporting the need for the requested natural gas base rate increase is the increase in capital investments made by Delmarva to ensure a safe and reliable gas transmission and distribution system for its customers. During the years 2010 and 2011, Delmarva has incurred cost of \$38.6 million in reliability investments related to main, service

¹Delmarva is a wholly-owned subsidiary of Pepco Holdings, Inc. (Exh. 2, ¶1.) Delmarva serves natural gas to customers in New Castle County only. (Exh. 2, App. A, Rev. Leaf No.3.)

² Exhibits entered into the evidentiary record will be cited herein as "Exh. _". References to the transcript from the evidentiary hearing will be cited as "Tr.-_ pg #."

and safety replacements, expenditures for equipment replacements and upgrades to the Liquified Natural Gas Plant, and meter replacement costs. Another \$7.7 million has been incurred for the installation of mains and services for new load projects for residential and commercial customers. In addition, in 2012, Delmarva will spend \$22 million for reliability project expenditures and \$5.7 million for growth project expenditures. (Id. at ¶3.)

3. For a typical residential customer using an average of 120 Ccf in a winter month, the average monthly bill impact is estimated to be \$8.67, or 6.1% of his total annual bill. (Id. at ¶6.)

4. With its Application, Delmarva also submitted pre-filed direct testimony from seven (7) witnesses: (1) Kevin M. McGowan, Vice President of Regulatory Affairs for Pepco Holdings, Inc. ("PHI"); (2) Jay C. Ziminsky, Manager, Revenue Requirements, in PHI's Regulatory Affairs Department; (3) Robert M. Collacchi, Director of Gas Operations & Engineering; (4) Kathleen A. White, Assistant Controller for PHI; (5) Marlene C. Santacecilia, Regulatory Affairs Lead in PHI's Rate Economics Department; (6) Michael T. Normand, Regulatory Affairs Analyst for PHI; and (7) Robert B. Hevert, Managing Partner of Sussex Economic Advisors, LLC. (Exhs. 3-9.)

5. In its Application, pursuant to 26 Del. C. §306(c), the Company also requested to place in effect, subject to refund, natural gas base rates designed to produce an annual increase in test period revenue of approximately \$2.5 million effective February 5, 2013, and to waive the bonding with surety requirement in 26 Del. C. 306(b).

6. In PSC Order No. 8271 (January 8, 2013), pursuant to 26 Del. C. §§306(a)(1), 306(c), 26 Del. C. §502, and 29 Del. C. ch. 101,

the Commission: a) initiated this docket; b) suspended the proposed full rate increase pending the completion of evidentiary hearings into the justness and reasonableness of the proposed rates and tariffs; c) waived the bonding with surety requirement but required Delmarva to comply with any refund Order; d) designated Robert Howatt as the Hearing Examiner and directed him to conduct such hearings and report to the Commission his proposed findings and recommendations concerning this matter; and e) effective February 5, 2013, allowed Delmarva to place interim rates of \$2,500,000 into effect, as permitted by Delaware law. Pursuant to PSC Order No. 8271, public notice of Delmarva's Application was published in The News Journal newspaper on January 14 and 15, 2013.

7. On January 8, 2013, pursuant to 29 Del. C. §8716, the Division of the Public Advocate (the "Public Advocate") intervened in this docket. Due to the Public Advocate's resignation, on March 18, 2013, the office of the Attorney General of the State of Delaware ("DAG's) Office filed a Motion to Intervene on behalf of the Public Advocate's Office. By PSC Order No. 8334 (March 18, 2013), the DAG's Office was permitted to intervene. On July 2, 2013, the DAG's Office withdrew its appearance and the new Public Advocate, David L. Bonar, was substituted as a party.

8. The Caesar Rodney Institute's Center for Energy Competiveness, the Hillstream II Property Owners Association, and State Representative John A. Kowalko, Jr. also filed Motions to Intervene, which were each granted without objection.

9. After Hearing Examiner Howatt was named the PSC's Executive Director, the Commission appointed Connie McDowell to serve as the Hearing Examiner by PSC Order No. 8297 dated February 21, 2013. By PSC Order No. 8402 (July 2, 2013), I replaced Ms. McDowell as the Hearing Examiner after she became Senior Regulatory Policy Administrator for Commission Staff. ("Staff").

10. On March 11, 2013, Delmarva filed supplemental testimony from Messrs. McGowan, Collacchi and Ziminsky. (Exhs. 21-23.) Delmarva updated its test period information to include twelve (12) months of actual data through December 31, 2012 ("12+0 Update") and updated (or increased) the Company's suggested revenue shortfall to \$13,005,000. (Exh. 23, p.2.)

11. Staff, the Public Advocate and Delmarva exchanged extensive written discovery. Also, Staff performed an extensive rate case audit of Delmarva's books and records. (Exh. 11 at 5.)

12. On April 3, 2013, the Commission conducted a Public Comment Session on Delmarva's proposed rate increase in Wilmington. Thirteen (13) members of the public attended. Representative John Kowalko stated that he is concerned that Delmarva is filing for rate increases "with more regularity ... during this economic downturn" (TR.-22.) He also spoke about Delmarva spending a significant amount of money on reliability investments, plant replacements, and upgrades. (TR. 23-24.) Representative Kowalko addressed PHI's increased profits in the fourth quarter of 2012, compared to the fourth quarter of 2011. (TR.-25.) Rep. Kowalko believes that the public cannot afford continuing

rate increases caused by the Company's infrastructure investments.
(TR.-23.)

13. Ten (10) homeowners from the Hillstream II residential development also attended the Public Comment Session. (TR.-30.) These homeowners would like Delmarva to expand its natural gas service to their development and supported the proposed change to Delmarva's Gas Tariff. (TR. 30-31.) Finally, a Delmarva electric customer spoke about the proposed rate increase. She stated that "people on limited incomes cannot afford more raises in rates." (TR.-33.)

14. On May 15, 2013, Staff submitted direct pre-filed testimony from Public Utility Analyst Malika Davis; David C. Parcell, President of Technical Associates, Inc.; Brian Kalcic of Excel Consulting; Gary B. Cohen of GBC Consulting, LLC; Michael J. McGarry, Sr., President and CEO of Blue Ridge Consulting Services; and David E. Peterson, Senior Consultant with Chesapeake Regulatory Consultants, Inc. (Exhs. 11-16.)

15. On June 3, 2013 the Public Advocate submitted direct pre-filed testimony from Glenn A. Watkins, a Senior Economist at Technical Associates, Inc. and Public and Confidential Testimony of J. Randall Woolridge, Consultant, Professor of Finance, Penn State University. (Exhs. 17-19.) The Caesar Rodney Institute also filed the direct testimony of its Director of the Center for Energy Competitiveness, David T. Stevenson. (Exh. 20.)

16. On June 7, 2013, Delmarva filed a request to implement \$10,498,971 in interim rates under bond, subject to refund and without surety. On July 2, 2013, pursuant to 26 Del. C. §302(b), the

Commission granted Delmarva's request, inclusive of the \$2.5 million previously ordered by the Commission, under bond, and subject to refund and under the same conditions set forth in PSC Order No. 8271 on January 7, 2013.³ (PSC Order No. 8406, July 2, 2013.) On July 5, 2013, pursuant to past Commission practice, Delmarva posted a bond without surety with the Commission in the amount of the requested interim rate increase. Delmarva implemented this interim rate increase on July 7, 2013. (*Id.*)

17. The interim rate increase is approximately 15% of Delmarva's gross annual intrastate operating revenues. For a typical residential customer using an average of 120 Ccf in a winter month, the average monthly bill impact is estimated to be \$6.75, or 4.7% of the residential customer's total annual bill.

18. On July 15, 2013, the Company submitted pre-filed rebuttal testimony from witnesses Hevert, McGowan, Ziminsky, Santacecilia and Collacchi. (Exhs. 25-29.)

19. On August 15, 2013, I conducted a pre-hearing teleconference with the parties. I requested a list of stipulated exhibits and anticipated hearing witnesses from the parties. I also directed that any pre-hearing motions be filed on or before August 21, 2013. On August 26, 2013, Counsel for Staff, Delmarva, and the Public Advocate notified me via e-mail that they had reached an agreement in principle to settle the case.

³ Thus, Delmarva requested to place an additional \$7,998,971 of interim rates into effect, subject to refund. According to Delmarva's request for an interim rate increase, the amount of Delmarva's interim rate request did not change the amount Delmarva was seeking to recover in this docket as stated in its Application.

20. I held the duly-noticed evidentiary hearing in Wilmington on August 27, 2013. After the evidentiary hearing, I closed the record consisting of thirty (30) exhibits and ninety nine (99) pages of transcript. The parties stipulated to the admissibility of all hearing exhibits. (TR. 96-97.)

III. BRIEF SUMMARY OF THE PARTIES' POSITIONS

21. *Delmarva*. The Company selected a historical test year consisting of the twelve months ended June 30, 2012 and a partially projected test period consisting of the twelve months ending December 31, 2012. After making several adjustments to rate base and expenses, the Company calculated an adjusted revenue deficiency of \$12,067,000 derived from an adjusted rate base of \$274.7 million; an overall rate of return of 7.53%; and cost of equity ("COE") of 10.25% on a capital structure consisting of 50.78% long-term debt and 49.22% common equity; and adjusted operating expenses of \$56,843,428. (Exhs. 25-29.)

22. *Delmarva* also proposed to implement a Utility Facility Relocation Charge Rider (Rider UFR), and requested approval of a revision to its Service Extension tariff and certain other miscellaneous tariff changes.

23. *Staff*. Staff contested the Company's use of a year-end test year and test period, and took the position that the Commission's general policy of using average rate base rather than year end rate base should be followed. Staff contended that *Delmarva* should only be allowed a revenue requirement increase of \$3,583,681, applied to an adjusted rate base of \$229,754,235; an overall rate of return of 7.15% and COE of 9.45% on the Company's proposed capital structure; and

adjusted operating income of \$14,307,070. As will be discussed in further detail below, Staff took issue with Delmarva's proposed methodology for recovering the cost of the deployment of the Gas Interface Management Units ("IMUs") and suggested modifications to the Company's changes to the Service Extension Tariff.

24. *Public Advocate.* The Public Advocate calculated a revenue deficiency of \$706,000 on an adjusted rate base of \$229,924,608; an overall rate of return of 6.66% and COE of 8.50% on a proposed capital structure consisting of 50.78% long-term debt and 49.22% common equity; and adjusted operating income of \$12,988,258. The Public Advocate also opposed Delmarva's proposed Service Extension tariff change.

25. *CRI.* CRI's testimony focused on the Company's request to change its Service Extension tariff. CRI supports this proposal but wants to see a detailed growth forecast of the Company's customer base if the change is approved.

IV. SUMMARY OF THE PREFILED TESTIMONY

A. Delmarva's Direct Testimony

26. Delmarva witness McGowan provided an overview of the Company's Application. (Exh. 3 at 2-6.) He testified that Delmarva has continued to undertake initiatives to ensure a high level of gas reliability and system safety and has invested approximately \$38.6 million in its natural gas distribution system since the last gas base rate case in July, 2010. Delmarva is spending significant amounts of capital to replace aging natural gas facilities. (*Id.* at 5-6.) According to Mr. McGowan, Delmarva continues to face rising costs to

meet the needs of its customers and fulfill its public service obligations. These rising costs include higher expenses, such as workforce-related costs, and higher capital expenditures to ensure the continued reliability and safe operation of the gas distribution infrastructure. As a result of these rising costs, the Company's revenues are falling far short of the level necessary to cover its costs, earn a reasonable rate of return and preserve a strong investment grade rating. (*Id.* at 8-9.)

27. Company witness McGowan also presented Delmarva's capital structure and current credit ratings. (*Id.* at 6-7.) He testified that the Company's proposed capital structure, consisting of 48.78% common equity and 51.22% long-term debt, was consistent with industry practice and averages, and was reasonable in light of the mean capital structures of the proxy groups used to determine Delmarva's COE. (*Id.* at 4-5). He explained how he calculated the Company's proposed 4.91% cost of long-term debt. (*Id.* at 6). He described why Delmarva's investment-grade credit ratings⁴ were important and how customers would benefit from those investment-grade credit ratings. (*Id.* at 7-8.)

28. Company witness Collacchi provided a brief overview of the Company's gas delivery business, discussed the Company's investments since the last rate case, provided a brief update on the Company's Advanced Metering Infrastructure ("AMI") project for gas that constitutes the deployment of IMUs, sponsored the design day demand calculation, and discussed the Company's proposed main extension

⁴ Delmarva's long-term corporate unsecured debt is rated BBB+ by Standard & Poor's, Baa2 by Moody's, and A- by Fitch. (Exh. 3 at 7.)

tariff. (Exh. 4 at 2-12). He testified that Delmarva is investing an average of \$12 million annually in the gas distribution system to rehabilitate and replace cast iron piping in its service territory. (Id. at 3-4). Witness Collacchi further addressed the deployment and activation of the IMUs in Delaware, testifying that approximately 32% of the gas IMUs have been installed as of October 31, 2012, with 3% having been optimized and activated for over the air meter reading. (Id. at 8.) Witness Collacchi advised that the calculated design day demand estimate is 191,637 MCF with a further breakdown set forth in the schedules attached to his testimony. (Id. at 9.)

29. Finally, witness Collacchi outlined the Company's proposal to revise its main extension tariff. In essence, the Company proposed to simplify the current process and attempt to address the cost effectiveness concerns raised by its customers. Delmarva proposed to change the tariff for residential extensions in existing subdivisions to, among other things, provide a 100 foot main extension per requesting customer at no charge. After the first 100 feet, the contribution from a new customer would be \$40.23 per foot. This tariff change would also apply to non-residential extensions. (Id. at 9-11.)

30. Company witness Hevert testified regarding the Company's COE and the capital structure to be used for ratemaking purposes. He calculated a 10.25% COE for the Company, using three models: the Constant Growth Discounted Cash Flow ("DCF") model, the Capital Asset Pricing Model ("CAPM"), and the Bond Yield Plus Risk Premium ("RP") model, applied to a group of nine (9) proxy companies. (Exh. 5 at 3-4 and 7-8.)

31. Company witness Ziminsky presented the selection of Delmarva's test year and test period, the development of Delmarva's distribution-related revenue requirement request, and the per-books earnings and rate base used in the Application. He sponsored certain Minimum Fling Requirements ("MFRs") and adjustments to rate base and earnings, and summarized adjustments that Delmarva was proposing. He also discussed the Company's inability to earn its authorized return on equity. (Exh. 6 at 2-18.) Finally, he described the AMI ratemaking proposal and the proposed ratemaking process for the achievement of the primary gas AMI-related milestone and subsequent recovery of AMI regulatory assets. (*Id.* at 19-27.)

32. Company witness White supported the actual amounts recorded in Delmarva's books and records for the test period and sponsored certain MFRs. (Exh. 9 at 2-3.) She testified about Delmarva's cost accounting structure and observed that several independent audits of its cost accounting manual had concluded that affiliate allocations and charges were consistent with the cost accounting manual and the service agreement. (*Id.* at 3-5.)

33. Company witness Normand presented Delmarva's class cost of service study. He described the key processes involved in cost allocation, the Company's cost of service model and its cost allocation method. (Exh. 8 at 2-14).

34. Company witness Santacecelia testified about Delmarva's proposed rate design for implementing its requested rate increase. She also sponsored certain pre-cost study adjustments, the new tariff rider known as the Utility Facility Relocation Charge Rider (Rider

UFRC), the proposed modifications to Tariff Section XVII-Extensions and the other miscellaneous changes to the Gas Tariff.⁵ (Exh. 7 at 2-13.)

B. Delmarva's Supplemental Testimony

35. Company witness McGowan provided an update to the Company's capital structure and Rate of Return based on its actual capital structure on December 31, 2012. (Exh. 21 at 1-2.)

36. Company witness Ziminsky updated Delmarva's financial and accounting data based on actual results for the twelve months ending December 31, 2012. The updated data suggested a revenue deficiency of \$13,005,000. (Exh. 23 at 2.) Mr. Ziminsky also updated the adjustments and the Gas AMI-related regulatory assets discussed in his direct testimony. As updated through the twelve months ending December 31, 2012, the \$3,954,000 AMI regulatory asset balance consisted of: (1) \$1,586,000 of remote indexes retired early due to deployment of IMUs; (2) \$2,142,000 of deferred O&M expense incurred from August 2010 through the end of the test period; (3) \$80,000 of returns representing recovery of and on the appropriate costs associated with the total AMI regulatory asset and net incremental AMI rate base, calculated at the Company's authorized rate of return; and (4) \$146,000 of incremental depreciation expense for IMUs compared to the replaced remote indexes. (Exh. 23 at 3-4.)

37. Witness Collachi provided an update on the Company's capital expenditures forecast and Construction Work in Progress

⁵ Neither Representative Kowalko nor Hillstream submitted any pre-filed direct testimony.

("CWIP"). (Exh. 22.)

C. Staff

38. Staff witness Cohen addressed the Company's AMI deployment related to gas and cost recovery regarding the AMI regulatory asset. He also outlined the history of the Interface Module Unit ("IMU") deployments, including delays in deployment due to faulty components of the IMU devices and installation issues. (Exh. 16.)

39. Staff witness Cohen testified that the Company's cost recovery should occur in two phases with 50% being recovered after satisfying each phase. In Phase 1, after 95% of the IMUs have been installed at customer premises and are providing 99.8% accurate and timely readings for six months, the Company may file for the first 50% of the cost recovery by April 1, 2014. In Phase 2, after 99% of the IMUs have been installed, and are providing 99.9% accurate and timely readings for six months, the Company may file for the remaining 50% of the cost recovery on April 1, 2015. (Exh. 16 at 3-8.)

40. Staff witness Kalcic testified as to his review of the Company's cost of service and rate design analysis. He recommending adopting Delmarva's proposed cost-of-service methodology and adopting Staff's recommended class revenue allocation and rate design. (Exh. 15 at 2-16.)

41. Staff witness McGarry testified concerning the policy issues associated with the Company's proposed changes to its gas main extension policy and related fees. He proposed approving the Company's proposed changes with several modifications, for example, requiring a surety bond or similar financial instrument for the cost

of the 100 feet per main per resident. (Exh. 14 at 2-13.)

42. Staff witness Parcell testified regarding the Company's COE. He accepted Delmarva's proposed capital structure and cost of long-term debt. (Exh.13 at 2.) He calculated the Company's COE within a range of 9.20-9.75% (with a 9.475% midpoint), using Constant Growth DCF, CAPM, and Comparable Earnings models applied to two groups of proxy companies. (*Id.* at 2-5, 14-25.) Mr. Parcell disagreed with certain aspects of Mr. Hevert's application of his cost of capital methodologies, contending that Mr. Hevert's model inputs, as well as the methodologies themselves, were systematically predisposed to inflate his COE conclusions. (*Id.* at 27.)

43. Staff witness Peterson addressed Delmarva's rate increase request and proposed rate changes. Specifically, he prepared a detailed analysis of Delmarva's retail gas distribution rate base and pro forma operating income under current rates and then calculated Delmarva's present revenue deficiency and operating income issues. He challenged several of Delmarva's proposed rate base adjustments, including but not limited to year-end rate base treatment, certain post test period reliability plant adjustments and including CWIP in rate base, and AMI-related costs. (Exh. 12 at 5-29). Regarding operating expenses, Mr. Peterson made a number of proposed adjustments, the effect of which reduced the Company's claimed expense levels for the test period and increased its earnings, thereby reducing its proposed revenue deficiency. (*Id.* at 10-29.)

44. Staff witness Davis addressed the Company's proposed Utility Facility Relocation Charge and provided background on the

Qualified Fuel Cell Provider Project. She also testified as to the field audit conducted by Staff to determine the accuracy of the Company's test year and test period actual books and records. (Exh. 11 at 5-10.)

D. Public Advocate

45. Public Advocate witness Watkins accepted the Company's use of a year-end rate base calculation as of December 31, 2012, the end of the test year. However, Mr. Watkins calculated an adjusted rate base of \$229,924,608, and testified that the Company had not consistently applied the matching principle of accrual accounting. Mr. Watkins disagreed with some of the Company's rate base and expense calculations.⁶ (Exh. 17 at 3-5, Schedule GAW-2.)

46. Specifically, Witness Watkins contested the Company's inclusion of CWIP in rate base, its cash working capital calculation, its rate case expenses and its AMI-related expenses. Mr. Watkins recommended a lower customer charge than the Company proposed, and further recommended moving to an inclining block rate structure. (*Id.* at 26-28, 25, 9-11, 16-20, respectively.)

47. As to the Company's proposed revision to its main extension tariff, Mr. Watkins testified that he supported making natural gas available to more Delawareans, but was concerned that the Company's proposal would result in current customers subsidizing future customers. He recommended establishing a Working Group to evaluate alternative methods for achieving the Company's objectives. (*Id.* at 40-44.)

⁶ Mr. Watkins submitted public and confidential versions of his pre-filed testimony. (Exhs. 17 & 18, respectively.)

48. Finally, Public Advocate witness Woolridge testified regarding the appropriate overall rate of return and COE for Delmarva's gas distribution operations. Employing the Company's proposed capital structure and debt cost rate, he applied the DCF and CAPM models to a proxy group of publicly-held gas distribution companies, deriving a COE in the range of 7.3% to 8.6%. Mr. Woolridge recommended an overall rate of return of 6.66%. He testified that the Company's proposed rate of return was inflated primarily due to an overstated COE. (Exh. 19 at 2-61.)

E. Caesar Rodney Institute ("CRI")

49. David Stevenson provided testimony on behalf of CRI that focused on Delmarva's proposed revision of its Service Extension tariff. CRI indicated its support for the expanded use of natural gas and the change to allow extensions up to 100 feet per customer without charge. (Exh. 20.)

F. Delmarva's Rebuttal Testimony

50. Company witness McGowan submitted testimony rebutting Staff's and the Public Advocate's positions regarding the Company's overall revenue requirement and its inability to earn its authorized rate of return, and ability to raise capital for ongoing investments in the gas system. (Exh. 25 at 2-3.) He also disagreed with the rate of return recommendations of DPA witness Woolridge and Staff witness Parcell. (Id. at 3.).

51. Further, Mr. McGowan discussed the Company's credit facility expense adjustment and countered the position of Staff

Witness Peterson that recovery of credit facility costs should be contingent on including short term debt in Delmarva's capital structure. (*Id.* at 5-7.) He also discussed the treatment of Executive and Non-Executive Incentive Compensation Expense. (*Id.* at 7-10.) Finally, he commented on the Company's capital structure as of December 31, 2012. (*Id.* at 10-11.)

52. Company witness Hevert provided rebuttal to Staff's and the Public Advocate's proposed COEs. He updated his COE models to reflect data through June 21, 2013, and also performed a multi-stage DCF analysis for his proxy group. He testified that the updated data continued to support his original COE recommendation of a range of 10.25%-10.75%. (Exh. 26 at 2-78.)

53. Company witness Ziminsky listed certain uncontested issues, identified Staff and Public Advocate adjustments or positions that the Company had accepted, and addressed other rate base and operating expense adjustments that Staff and the Public Advocate either had challenged or had made themselves. (Exh. 27 at 1-42.) He also contested some of Staff's and the Public Advocate's positions regarding the proposed phase-in for recovery of the AMI regulatory asset, and provided an updated revenue requirement for the Company of \$12,067,000. (*Id.* at 5, 42-47.)

54. Company witness Collacchi submitted rebuttal testimony regarding Staff's and the Public Advocate's opposition to the proposed base rate treatment for investment that he claimed was "much needed," provided an update on IMU deployment and activation, and addressed the testimonies of Staff witness McGarry and DPA witness Watkins

concerning the proposed revision to the main extension tariff. (Exh. 28 at 1-11.)

55. Company witness Santacecelia addressed Staff's and the Public Advocate's criticisms of Delmarva's proposed rate design, year-end Customer Revenue Adjustment, weather normalization adjustment, and proposed main extension tariff. (Exh. 29 at 1-6.)

V. THE PROPOSED SETTLEMENT

56. On August 26, 2013, Delmarva, Staff and the Public Advocate (the "Settling Parties") advised me that they had reached a settlement in principle. On August 27, 2013, the first day of the scheduled evidentiary hearings, the Settling Parties presented the terms of the Settlement Agreement. I admitted the Settlement Agreement (the "Settlement") into the record. (Exh. 30.) The Settlement is attached as Exhibit "A" hereto, and is signed by the Settling Parties, as well as CRI and the Hillstream Association.

57. First, the Settling Parties agreed to a total revenue requirement increase of \$6.8 million. Because the current interim rates exceed \$6.8 million, customers will actually experience a rate decrease as a result of the Settlement. In addition, Delmarva will credit (or refund to former customers) the excess revenue collected from July 7, 2013 (the effective date of the interim rate increase) through the date the Commission approves the Settlement. The credit/refund shall be made proportionally to all customers whose rates increased on July 7, 2013, and who became customers thereafter using the same billing determinants used for the interim rate

increase. (Exhibit A at §II(A)1,3.)

58. The Settling Parties have reached no understanding as to the appropriate Cost of Equity for the Company; however, they have agreed that, for reporting purposes and for calculating the costs of the Allowance for Funds Used During Construction ("AFUDC"), Construction Work in Progress ("CWIP"), regulatory asset carrying costs, and for other accounting purposes, the rate which will be used is 9.75%. (Exhibit A at §II(A)1.)

59. The base rate revenue changes will be applied across the board to all classes of customers as reflected on Exhibit 2 of the Settlement Agreement. (Exhibit A at §II(A)1.) The only exception is the LVG-QFCP class, which will receive an increase that results in it paying the actual cost of serving it, as previously required by the Commission in PSC Order No. 8079 (December 1, 2011). (*Id.*) No structural changes shall be made to the Company's existing rate design.

60. The Settlement also included a process to address the Company's request to change its main extension tariff for existing residential subdivisions and non-residential customers for existing mains. It was agreed that a Working Group would be established consisting of the parties to this docket to consider these changes.

61. The Working Group meetings will be completed on or before December 2, 2013. On or before December 16, 2013, the Working Group participants will submit to the Commission for consideration either: (a) mutually acceptable Service Extension language for inclusion in the Gas Tariff; or (b) any objections or modifications to Delmarva's

proposed Service Extension Gas Tariff language.

62. The Settlement Agreement further provides that any such objections or modifications shall not include recommendations that the Service Extension language change be re-considered as part of a subsequent base rate proceeding or that any extensions under the Service Extension Gas Tariff cannot be placed into effect unless as part of a subsequent base rate proceeding. The Settling Parties agreed that a final order on the Service Extension issue will be issued in this Docket. (Exhibit A at §(II)(B),1-4.)

63. In PSC Order No. 7420 (September 16, 2008), the Commission authorized Delmarva to establish a regulatory asset for operating costs associated with Advanced Metering Infrastructure ("AMI") deployment which included deployment of the IMU portion of AMI (the "IMU Asset"). As noted previously, the IMU Asset deployment had experienced delays totaling approximately twenty-four (24) months. Consequently, the Settling Parties agreed to phase-in recovery of the operating costs associated with the IMU Asset into customer rates (the "Phase-In") as follows: (a) 50% of the IMU Asset will be placed into rates on May 1, 2014; and (b) the remaining 50% of the IMU Asset will be placed into rates on March 1, 2015. (Exhibit A at §(II)(C),1-2.)

63. Additionally, in order to establish that the IMUs are functioning as planned before any portion of the IMU Asset may be included in rates on the dates referenced above, the Company must establish that for a period of at least ninety (90) days prior to the applicable dates:

- a. With respect to the May 1, 2014 portion of the Phase-In, 95% of eligible meters are equipped with an activated IMU device and those IMU devices are functioning as planned; and
- b. With respect to the March 1, 2015 portion of the Phase-In, 99% of eligible meters are equipped with an activated IMU device and those IMU devices are functioning as planned.

Eligible meters consist of meters which are intended to be equipped with IMU devices. (Exhibit A at §(II)(C),3.)

64. The filings for each portion of the Phase-In must be made at least 105 days prior to each Phase-In date set forth above. Notwithstanding any language to the contrary contained in the Settlement Agreement, the ninety (90) day period must include at least one (1) of the following months: November, December, January, February, March, or April. (Exhibit A at §(II)(C),4.)

65. The IMUs will be considered to be "functioning as planned" if 95% of the IMU devices have been sending remote readings that are being used for billing purposes and those readings are both 99.5% accurate and 99.5% timely. For purposes of this requirement, the accuracy rate of 99.5% will be considered achieved if no more than 0.5% of the bills require adjustment after the bill has been presented for payment to the customer. The timeliness rate of 99.5% will be considered achieved if no more than 0.5% of bills are sent later than

three (3) full business days after the final meter reading within each customer's monthly billing period.

66. Any failure to achieve the 99.5% accuracy and timeliness requirements must be due to an error attributable to the IMUs. For purposes of calculating the percentage of meters functioning as planned, the IMU accuracy rate and the timeliness rate, IMUs that are unable to function as planned due to external forces outside the reasonable control of the Company will not be included for the purpose of determining compliance with the 95% and 99.5% requirements. (Exhibit A at §(II)(C),4.)

67. If the requirements for the portion of the Phase-In intended for May 1, 2014 are not met by the Company, then:

- a. The portion of the Phase-In originally scheduled to occur on that date will be postponed until such time as the Company meets the requirements (as set forth above) to phase in rates on that date; and

The portion of the Phase-In originally scheduled to occur on March 1, 2015 will be postponed until 9 months from the date that the first portion of the Phase-In actually goes into effect. (Exhibit A at §(II)(C),6)

68. If the Company does not satisfy the requirements for the portion of the Phase-In originally scheduled to occur on March 1, 2015, then the Phase-In that would have occurred on that date will be postponed until such time as the Company meets those requirements. (Id.)

69. On a going forward basis, the Company agreed to file required monthly and quarterly financial reports on a timely basis, in accordance with the reporting provisions of Part E of 26 Del. Admin. Code §1002. (Exhibit A at §(II)(D),1.)

70. Finally, Delmarva agreed that it will not file its next gas base rate before January 1, 2015. (Exhibit A at §(II)(D),2.)

71. The Settlement Agreement does not request ratemaking treatment for any issues not specifically addressed in the Settlement. The Settling Parties (and others) are free to raise those issues in a future base rate or other regulatory proceeding. In addition, because the Settlement Agreement was a product of extensive negotiation, the Settling Parties conditioned the Settlement Agreement on the Commission approving it in its entirety without any modification. (Exhibit A at §(II)(F),1,2.)

VI. THE AUGUST 27, 2013 EVIDENTIARY HEARING

72. On August 27, 2013, I conducted the duly-noticed evidentiary hearing as to whether the proposed Settlement Agreement should be approved.

73. The Settling Parties each presented at least one witness to testify regarding the Settlement. Each witness was subject to questioning from the parties and interveners who participated in the hearing. Intervener CRI was present and represented by David Stevenson. Intervener Hillstream II Property Owners Association was present and represented by Kim Scovill. Representative Kowalko was not represented at the hearing.

74. Delmarva witness Ziminsky summarized the major points of

the proposed settlement. He testified that the Settlement resulted in just and reasonable rates and was in the public interest. Mr. Ziminsky noted that the Settling Parties represented different stakeholder groups with diverse interests. He stated that the Settlement struck a balance between the Company's need for additional revenue to maintain adequate, safe and reliable service to its customers and the avoidance of increased costs to litigate the matter. (TR. at 69-72.)

75. Witness Ziminsky described the process by which the Settling Parties had reached the agreement, noting that the participants had investigated, among other things, the claimed amount of the AMI regulatory asset, and that Staff had conducted a field audit to review financial data used to develop the Company's revenue requirement. (TR.-68.)

76. With respect to AMI, and in response to cross examination, Mr. Ziminsky testified that the amount represented by the first 50% to be placed into rates was approximately \$379,000. Over the 15-year amortization period, that amount roughly translated to about \$0.32 per customer. The amount represented by the second 50% to be placed into rates was also approximately \$379,000, assuming no change in the unamortized balance. (TR. at 77-78.)

77. Staff witness Malika Davis, Staff's case manager in this Docket, also testified that the Settlement was just and reasonable because it will save the ratepayers money by not having to fully litigate the case and because the settlement balanced all of the parties' interests. (TR -81.)

78. Staff witness Gary Cohen testified that he was involved in

the extensive discussions regarding settlement of the AMI regulatory asset issue, specifically the IMU issue. He testified that unlike the electric rate case settlement, the resolution of the AMI issue in this case focused on IMU deployment, activation and reading. (TR.-84.) He described the proposed IMU resolution as requiring activation, along with timely and accurate readings. (TR.-86.)

79. Mr. Cohen noted that because the IMU technology is much newer than the electric AMI technology, it is critical to have protection measures and documentation that supports that the devices are operating the way they are intended to operate (TR. at 86-87.) In terms of the potential cost to ratepayers, Mr. Cohen confirmed the \$0.32 for the first phase as indicated by witness Ziminsky and testified that his estimate of the monthly per-customer cost for the second phase was \$0.34. (TR.-88.)

80. Public Advocate witness Watkins testified that the Settlement Agreement resulted in just and reasonable rates and was in the public interest. He explained that the proposed revenue requirement would provide Delmarva with the opportunity to recover its plant investment and to earn a fair but not unreasonably high rate of return, and would maintain safe and reliable service for ratepayers without excessively high rates (TR.at 91-92.) He further testified that he was satisfied with the resolution of the IMU issue (TR.at 92-93.)

81. CRI's David Stevenson made brief closing comments indicating that the settlement was just and reasonable. (TR.-94.) Hillstream's Kim Scovill commented on the benefits to ratepayers (and

Delaware residents) of expanding natural gas to additional customers as a way of allowing Delmarva to earn a reasonable rate of return on its plant and mitigate future rate increases. (TR.-95.)

VII. DISCUSSION

82. The Commission has jurisdiction over this matter. (26 Del. C. §201(a).)

83. The Settling Parties, representing diverse interests, have testified that the Settlement Agreement results in just and reasonable rates and is in the public interest. The Settlement Agreement was reached after significant discovery and negotiations between the Settling Parties. I find their testimony in support of the Settlement persuasive. For the reasons that follow, I recommend that the Commission approve the Settlement.

84. 26 Del. C. §307(a) places the Burden of Proof upon Delmarva to show that the proposed rates are just and reasonable.

85. 26 Del. C. §512(a) provides that "[i]nsofar as practicable, the Commission shall encourage the resolution of matters brought before it through the use of stipulations and settlements." 26 Del. C. §512(c) provides that the Commission may approve a settlement if it is in the public interest.

86. The fact that the Settling Parties and the Interveners who have also executed the Settlement Agreement represent diverse interests is persuasive to me. Delmarva's interest must focus upon achieving rates that allow it to recover its costs of providing service and an opportunity to earn a fair rate of return. Staff is required to balance the utility's and ratepayers' interests. 29 Del.

C. §8716(d)(2) charges the Public Advocate with advocating the lowest reasonable rates for primarily residential and small commercial consumers consistent with maintaining adequate utility service and an equitable distribution of rates among all the utility's customer classes.

87. There is substantial evidence on the record in this case to support my recommendation that the Settlement Agreement be approved.⁷ (29 Del. C. §10142(d).) First, it is clear that every Settling Party which submitted pre-filed testimony (Delmarva, Staff and the Public Advocate), recommended some increase in the revenue requirement. But, it is also clear that the Settlement Agreement was the product of extensive negotiation and compromise. The record evidence supported a revenue requirement increase of anywhere between \$706,000 (DPA's recommendation, assuming the Commission decided every contested monetary issue in its favor) to \$12,067,000 (Delmarva's requested revenue requirement, assuming the Commission decided every contested monetary issue in Delmarva's favor).

88. I find that the Commission in all likelihood would not likely have decided every contested issue in favor of any one of the participants which submitted pre-filed testimony. Rather, the Commission would more likely have balanced each party's position against certain regulatory principles and reached some compromise between the various positions taken by the parties. In this context, I

⁷ "Substantial evidence is such relevant evidence as a reasonable mind might accept as adequate to support a conclusion. It must be more than a scintilla, but may be less than a preponderance of the evidence." *Olney v. Cooch*, 425 A.2d 610, 614 (DE. 1981); *Price v. State of Delaware Board of Trustees*, 2010 WL 1223792 (Del. Super. Mar. 22, 2010) (unpublished opinion).

note that the Settlement Agreement's revenue requirement increase of \$6,800,000 is substantially less than the Company's request of \$12,067,000.

89. Additionally, with respect to the Company's request to modify its main extension tariff, the parties to this docket have agreed to convene a Working Group. The parties have agreed to attempt to reach a consensus on an appropriate modification which will satisfy the Hillstream residents' and other Delawareans' objective of making natural gas available to them at a reasonable cost, balanced against the Public Advocate's concern that any changes to the main extension tariff not result in current customers unduly subsidizing future customers.

VIII. RECOMMENDATIONS

90. In summary, and for the reasons stated above, I find that the proposed Settlement Agreement results in just and reasonable rates and is in the public interest. Overall, it represents a fair resolution of the issues raised in this case. A proposed Order implementing the foregoing recommendations is attached hereto as Exhibit "B" for the Commission's consideration.

91. Accordingly, I recommend that the Commission adopt this Report and approve the Settlement Agreement, confirming that the settlement rates can be placed into effect as of the date of the Commission Order approving the Settlement Agreement. Such approved rates and tariff revisions shall remain effective until changed by further Commission Order.

Respectfully submitted,

Mark Lawrence
Hearing Examiner

Dated: September 30, 2013

EXHIBIT "A"

SETTLEMENT AGREEMENT

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION)	
OF DELMARVA POWER & LIGHT COMPANY)	
FOR A CHANGE IN NATURAL GAS BASE)	PSC DOCKET NO. 12-546
RATES (FILED DECEMBER 7, 2013))	
)	

PROPOSED SETTLEMENT AGREEMENT

This proposed Settlement Agreement (the "Settlement") is entered into by and among Delmarva Power & Light Company ("Delmarva" or the "Company"), the Delaware Public Service Commission Staff ("Staff"), and the Division of the Public Advocate ("DPA") (together, the "Settling Parties") (each individually a "Party" and collectively the "Settling Parties"),

I. INTRODUCTION AND PROCEDURAL BACKGROUND

1. On December 7, 2012, Delmarva filed with the Delaware Public Service Commission (the "Commission") an application (the "Application") seeking approval of: (a) an increase of \$12,174,435 in its natural gas distribution base rates; (b) a revision to the Gas Tariff to add a new Rider UFRC to provide a mechanism to implement the recovery costs related to relocation of the Company's delivery facilities as required to accommodate projects proposed by the Delaware Department of Transportation or other state agencies; (c) a proposed modification to the Gas Tariff language in Section XVII – Extension to make it easier and more affordable for residential and small business owners to consider natural gas for their energy needs; and (d) several minor editorial changes to its natural gas tariff for clarification purposes. The Application was

accompanied by various schedules, tables and data required by the Commission's minimum filing requirements and the pre-filed testimony of several witnesses.

2. Pursuant to its authority under 26 *Del. C.* §306(a)(1), the Commission reviewed the Application and determined in PSC Order No. 8271 (January 8, 2013) that the proposed rate and tariff changes should be suspended pending full and complete evidentiary hearings into their justness and reasonableness. The Commission also approved the Company's request, pursuant to 26 *Del. C.* §306(c), to implement interim rates intended to produce an annual increase in Intrastate operating revenues of \$2.5 million, effective with service on and after February 5, 2013, with proration and subject to refund.

3. On March 11, 2013, Delmarva filed supplemental testimony and work papers in this Docket updating the information contained in its original Application to provide actual results as of December 31, 2012. These updates increased Delmarva's suggested revenue requirement to \$13,005,000.

4. Pursuant to the procedural schedule established by the Hearing Examiner, the Settling Parties engaged in discovery with respect to the Application and accompanying testimony and other material filed with the Application. On June 3, 2013, Staff submitted prefiled testimony supporting a \$3,584,000 revenue requirement increase, and the DPA submitted prefiled testimony supporting a \$706,000 revenue requirement increase. Staff, the DPA and CRI also submitted testimony addressing Delmarva's proposed revisions to its main extension tariff provisions.

5. Delmarva filed rebuttal testimony on July 15, 2013 that reflected a revenue requirement of \$12,067,000, an amount less than what the Company requested when it filed its case in December 2012.

6. On June 7, 2013, Delmarva submitted an application in this Docket with proposed tariff sheets seeking to implement, subject to refund, under bond, an interim rate increase of \$10,498,971, as permitted by 26 Del. C. §306. The Commission approved this request by Commission Order No. 8406 dated July 2, 2013. Rates went into effect on July 7, 2013.

7. The Settling Parties have engaged in substantial written discovery and desire to avoid the additional cost that would be incurred if the case were to proceed to evidentiary hearings, briefing and argument before the Commission. The Settling Parties acknowledge that they differ as to the proper resolution of many of the underlying issues in this rate proceeding and that, although they have resolved this docket through this proposed Settlement, they preserve their rights to raise those issues in future proceedings. For purposes of this proceeding, the Settling Parties believe that settlement on the terms and conditions contained herein will serve the interests of the public and the Company, and will meet the statutory requirement that the resulting rates be both just and reasonable.

II. SETTLEMENT PROVISIONS

IT IS HEREBY STIPULATED AND AGREED by Delmarva, Staff, and the DPA that the Settling Parties will submit to the Commission for its approval the following terms and conditions for resolution of this rate proceeding:

A. Rates and Charges.

1. Beginning with service provided on and after November 1, 2013, the total gas base rate revenue increase shall be \$6.8 million. The rates approved for service on and after November 1, 2013 shall be as set forth in the tariff leafs attached as Exhibit 1, which is incorporated herein. The Settling Parties have reached no understanding on the appropriate return on common equity for the Company at this time or in this Settlement; however, the Settling Parties have agreed that, for reporting purposes and for calculating the costs of the Allowance for Funds Used During Construction, Construction Work in Progress, regulatory asset carrying costs and other accounting metrics, the rate that should be used is 9.75%.

2. The Settling Parties agree that the base rate revenue changes will be applied across-the-board to all classes of customers, except for LVG –QFCP as shown in Exhibit 2, which is incorporated herein. In addition, they agree that no structural changes shall be made to the Company's existing rate design, except as noted below.

3. Since the rates agreed to in this Proposed Settlement are lower than the existing gas distribution rates placed into effect on July 7, 2013, customers are entitled to a refund from the date Delmarva's full requested rate increase was placed in effect, with interest on the deferred amounts as calculated in accordance with Regulation Docket No. 11. Delmarva will submit to the Commission a rate refund plan consistent with plans submitted in previous dockets by December 1, 2013. Any credit or refund made to a gas customer shall be made to all customers whose rates were increased on

July 7, 2013 and thereafter on a proportional basis using the same billing determinants that were used to increase their rates.

B. Gas Service Extension – Tariff Changes.

1. The Settling Parties agree that this Docket shall remain open for the sole purpose of conducting working group meetings to consider changes to Delmarva's Natural Gas Tariff, specifically, Service Extensions for existing residential subdivisions and for non-residential customers for existing mains (Leaf Nos. 27 and 28) as proposed by Delmarva in the Application ("Service Extensions").
2. The Settling Parties agree that the working group meetings for Service Extensions will begin no later than September 15, 2013 for the purpose of soliciting comments from the parties and interveners in this Docket as to the specific language to be included in the Gas Tariff provisions for Service Extensions.
3. The Settling Parties further agree that the Service Extensions working group meetings will be completed on or before December 2, 2013, and that on or before December 16, 2013, the parties to this Docket will submit to the Commission for its consideration either: (1) mutually-acceptable Service Extension language for inclusion in the Gas Tariff; or (2) any objections or modifications to Delmarva's proposed Service Extensions Gas Tariff language .
4. The Settling Parties further agree that their positions relative to the Service Extension language will not include any recommendation that the Service Extension language change be reconsidered as part of a subsequent base rate proceeding, or that any extensions under the Service Extension Gas Tariff cannot be

placed into effect unless as part of a subsequent base rate proceeding. The Settling Parties agree that a final order on the Service Extension issue shall be issued in this Docket as part of this proceeding.

C. AMI IMU Regulatory Asset Recovery

1. Pursuant to Order No. 7420 (Docket No. 07-28), Delmarva established a regulatory asset for operating costs associated with the deployment of the interface management unit (IMU) portion of Delmarva's Advanced Metering Infrastructure (the "IMU Asset"). The IMU Asset has been accruing a return since its establishment. Unlike the installation of AMI meters for the electric metering portion of the Company's Advanced Metering Infrastructure, the completion of the IMU portion has experienced a delay of approximately 24 months, compared to the installation of electric meters.

2. The Settling Parties agree to a phase-in of the recovery of the IMU Asset into customer rates (the "Phase-In") as follows;

- a. 50% of the IMU Asset will be put into rates on May 1, 2014.
- b. The remainder of the IMU Asset will be put into rates on March 1, 2015.

3. In order to establish that the IMUs are functioning as planned before any percentage of the IMU Asset may be included in rates on the dates referenced above, the Company must establish that for a period of at least 90 days prior to the applicable dates:

- a. with respect to the May 1, 2014 portion of the Phase-In, 95% of eligible meters have been equipped with an activated IMU device and those IMU devices are functioning as planned; and
- b. with respect to the March 1, 2015 portion of the Phase-In, 99% of eligible meters have been equipped with an activated IMU device and those IMU devices are functioning as planned.

Eligible meters consist of meters that are intended to be equipped with IMU devices.

4. The filings for each portion of the Phase-In must be made at least 105 days prior to each phase-in date set forth above. Notwithstanding any language to the contrary contained herein, the 90 day period described in Section C. 3. hereof must include at least one of the following months: November, December, January, February, March, or April.

5. The IMUs will be considered to be "functioning as planned" if 95% of the IMU devices have been sending remote readings that are being used for billing purposes and those readings are both 99.5% accurate and 99.5% timely. For purposes of this requirement, the accuracy rate of 99.5% will be considered achieved if no more than 0.5% of the bills require adjustment after the bill has been presented for payment to the customer. The timeliness rate of 99.5% will be considered achieved if no more than 0.5% of bills are sent later than three full business days after the final meter reading within each customer's monthly billing period. Any failure to achieve the 99.5% accuracy and timeliness requirements must be due to an error attributable to the IMUs. For purposes of calculating the percentage of meters functioning as planned, the IMU

accuracy rate and the timeliness rate, IMUs that are unable to function as planned due to external forces outside the reasonable control of the Company will not be included in the total number of the activated IMUs for the purpose of determining compliance with the 95% and 99.5% requirements contained in this Section.

6. If the requirements for the portion of the Phase-In intended for May 1, 2014 are not met by the Company, then:

- a. The portion of the Phase-In originally scheduled to occur on that date will be postponed until such time as the Company meets the requirements (as set forth above) to phase in rates on that date, and
- b. The portion of the Phase-In originally scheduled to occur on March 1, 2015 will be postponed until 9 months from the date that the first portion of the Phase-In actually goes into effect.

If the requirements for the portion of the Phase-In originally scheduled to occur on March 1, 2015 are not met by the Company, then the Phase-In that would have occurred on that date will be postponed until the Company meets the requirements (as set forth above) to phase in rates on that date.

D. Miscellaneous Issues.

1. Section 3.1 of 26 *Del. Admin. Code* 1002 Part E provides: "Monthly financial reports shall be filed with the Commission no later than sixty (60) days following the end of the month." Delmarva has been filing financial reports (Financial Reports) with the Commission on a quarterly basis that contain information broken down on a monthly basis. Staff asserts that the Financial Reports must be filed on a

monthly basis and as such, asserts that Delmarva has not been meeting the time lines set forth in Section 3.1 of 26 *Del. Admin. Code* 1002 Part E. Going forward, the Company agrees to file on a timely basis, in accordance with the reporting provisions of Part E of 26 *Del. Admin. Code* Section 1002, Financial Reports on both a Monthly and Quarterly basis.

2. Delmarva agrees that its next gas base rate application will be filed with the Commission no earlier than January 1, 2015.

F. Additional Provisions

1. This Settlement is the product of extensive negotiation, and reflects a mutual balancing of various issues and positions. It is therefore a condition of the Settlement that the Commission approves it in its entirety without modification or condition. If this Settlement is not approved in its entirety, this Agreement shall become null and void.

2. This Settlement shall not set a precedent and no Settling Party shall be prohibited from arguing a different policy or position before the Commission in any future proceeding. The purpose of this Settlement is to provide just and reasonable rates for Delmarva's customers, and the Settling Parties believe that this Settlement accomplishes this goal. In addition, the Settling Parties believe that the Settlement is in the public interest because, among other things, it avoids additional litigation costs.

3. The terms of this Settlement will remain in effect until changed by an order of the Commission, and the Commission shall retain jurisdiction over this Settlement. All statutory procedures and remedies shall be available to the Parties to ensure that rates are just and reasonable, including without limitation 26 *Del. C.* §§304,

309-311.

4. This Settlement may be executed in counterparts by any of the signatories hereto and transmission of an original signature by facsimile or email shall constitute valid execution of this Settlement, provided that the original signature of each Settling Party is delivered to the Commission's offices before its consideration of this Agreement. Copies of this Settlement executed in counterpart shall constitute one agreement. Each signatory executing this Settlement warrants and represents that he or she has been duly authorized and empowered to execute this Settlement on behalf of the respective Settling Party.

IN WITNESS WHEREOF, intending to bind themselves and their successors and assigns, the undersigned Settling Parties have caused this Settlement to be signed by their duly-authorized representatives.

DELAWARE PUBLIC SERVICE COMMISSION STAFF

By: Connie S. McDowell

Date: 8/27/13

DELMARVA POWER & LIGHT COMPANY

By: [Signature]

Date: 8/27/13

THE DIVISION OF THE PUBLIC ADVOCATE

By: David L. Bonar *msm*

Date: 8/27/13

CAESAR RODNEY INSTITUTE

By: Darrell L. Stever

Date: 8/27/13

HILLSTREAM II PROPERTY OWNERS ASSOCIATION

By: [Signature]

Date: 8/27/13

Exhibit 1

TABLE OF CONTENTS (Continued)Leaf NumberSERVICE CLASSIFICATIONSCORE SALES SERVICES

"RG"	Residential Gas Sales Service	40
"GG"	General Gas Sales Service	41
"GL"	Gas Lighting Sales Service	42
"MVG"	Medium Volume Gas Sales Service	43
"LVG"	Large Volume Gas Sales Service	46
"LVG-QFCP-RC"	Large Volume Gas Sales Service-Qualified Fuel Cell Provider-Renewable Capable Power Production	48a
"PM"	Peak Management Rider	49

CORE TRANSPORTATION SERVICES

	Transportation Terms and Conditions	51
"GVFT"	General Volume Firm Transportation Service	60
"MVFT"	Medium Volume Firm Transportation Service	61
"LVFT"	Large Volume Firm Transportation Service	62
"SBS"	Stand-By Gas Supply Service	63

NON-CORE SERVICES

"QFT"	Quasi-Firm Transportation Service	65
"MVIT"	Medium Volume Interruptible Gas Transportation Service	66
"LVIT"	Large Volume Interruptible Gas Transportation Service	68
"FPS"	Flexibly Priced Gas Supply Service	74
"NCR"	Negotiated Contract Rate Service	76

RIDERS

"ESR"	Environmental Surcharge Rider	79
"UFR"	Utility Facility Relocation Charge	81

**RATES AND CHARGES
CORE SALES RATE LEAF**

<u>SERVICE CLASSIFICATION</u>	<u>BASE RATE</u>	<u>BASIS</u>
<u>Residential Gas Sales Service ("RG")</u>		
Customer Charge	\$11.34	per month
Delivery Charge	\$0.49941	per CCF
Space Heating Delivery Charge 1/ Over 50 CCF	\$0.40075	per CCF
Environmental Surcharge Rider	\$0.00021	per CCF
Gas Cost Rate (GCR)	\$0.68967	per CCF
<u>General Gas Sales Service ("GG")</u>		
Customer Charge	\$34.17	per month
Delivery Charge		
First 750 CCF	\$0.41487	per CCF
Over 750 CCF	\$0.30989	per CCF
Environmental Surcharge Rider	\$0.00021	per CCF
Gas Cost Rate (GCR)	\$0.68967	per CCF
<u>Gas Lighting Sales Service ("GL")</u>		
(Estimated Usage - 15 CCF per month)		
Monthly Charge	\$ 7.02	per gas light
Gas Cost Rate (GCR)	\$10.35	per gas light
<u>Medium Volume Gas Sales Service ("MVG")</u>		
Customer Charge	\$670.50	per month
Demand Charge	\$ 15.89	per MCF of Billing MDQ
Delivery Charge 2/	\$0.50982	per MCF
Environmental Surcharge Rider	\$0.00211	per MCF
Gas Cost Rate (GCR) Demand Charge	\$11.6589	per MCF of Billing MDQ
Gas Cost Rate (GCR) Commodity Charge 2/	\$5.1051	per MCF
<u>Large Volume Gas Sales Service ("LVG")</u>		
Customer Charge	\$1,004.80	per month
Demand Charge	\$ 9.78	per MCF of Billing MDQ
Delivery Charge 2/	\$0.12264	per MCF
Environmental Surcharge Rider	\$0.00211	per MCF
Gas Cost Rate (GCR) Demand Charge	\$11.6589	per MCF of Billing MDQ
Gas Cost Rate (GCR) Commodity Charge 2/	Varies	per MCF

Public Utilities Tax: 4.25% Applies to all non-residential services, including the GCR, unless pursuant to Title 30 Chapter 55, the Customer is eligible for a different tax rate or is exempt from such tax.

City of Wilmington Local Franchise Tax: 2% Charged on all non-exempt services, in the City of Wilmington, including the GCR.

Utility Facility Relocation Charge

For applicability refer to Rider UFRC on Leaf No. 81

1/ Gas used by Customers with permanently installed gas-fired space heating equipment qualifies for the space heating delivery rate for all gas used in excess of 50 ccf for the billing months of October through May, inclusive.

2/ All LVG and "Electing" MVG Customers pay a monthly Commodity Charge GCR based upon the system Weighted Average Commodity Cost of Gas ("System WACCOG"). "Non-Electing" MVG Customers pay the annual GCR Commodity Charge listed here.

Order Nos.

Filed: August 29, 2013

Docket Nos.

Effective with Usage On and After November 1, 2013

Proposed

Delmarva Power & Light Company
P.S.C. Del. No. 5 – Gas

Leaf No.: 37a
Revision: Fifth
Revised: August 29, 2013

RATES AND CHARGES
CORE SALES RATE LEAF

SERVICE CLASSIFICATION

BASE RATE

BASIS

Large Volume Gas Sales Service-Qualified Fuel Cell Provider-Renewable Capable Power Production
("LVG-QFCP-RC")

Customer Charge	\$1,079.80	per month
Demand Charge	\$6.85817	per MCF of Billing MDQ
Capital Recovery Charge	Varies	per Customer's Executed Service Agreement
Environmental Surcharge Rider	\$0.00211	per MCF
Gas Cost Rate (GCR) Commodity Charge 1/	Varies	per MCF

Public Utilities Tax: 4.25% applies to all non-residential services, unless pursuant to Title 30 Chapter 55, the Customer is eligible for a different tax rate or is exempt from such tax.

City of Wilmington Local Franchise Tax: 2% charged on all non-exempt services, in the City of Wilmington.

Utility Facility Relocation Charge

For applicability refer to Rider UFRC on Leaf No. 81

- 1/ All LVG-QFCP-RC customers pay a Commodity Charge Rate based upon the Gas Daily Average (GDA) for Transco Zone 6 Non-New York price plus any premiums incurred by Delmarva to provide this service.

Order No.
Docket No.

Filed: August 29, 2013
Effective with Usage On and After November 1, 2013

Proposed

RATES AND CHARGES
CORE SALES RATE LEAF

<u>SERVICE CLASSIFICATION</u>	<u>BASE RATE</u>	<u>BASIS</u>
<u>Large Volume Gas Sales Service-Qualified Fuel Cell Provider-Renewable Capable Power Production ("LVG-QFCP-RC")</u>		
Customer Charge	\$1,079.80	per month
Demand Charge	\$6.85817	per MCF of Billing MDQ
Capital Recovery Charge	Varies	per Customer's Executed Service Agreement
Environmental Surcharge Rider	\$0.00211	per MCF
Gas Cost Rate (GCR) Commodity Charge 1/	Varies	per MCF
<u>Public Utilities Tax:</u> 4.25% applies to all non-residential services, unless pursuant to Title 30 Chapter 55, the Customer is eligible for a different tax rate or is exempt from such tax.		
<u>City of Wilmington Local Franchise Tax:</u> 2% charged on all non-exempt services, in the City of Wilmington.		
Utility Facility Relocation Charge	For applicability, refer to Rider UFRC on Leaf No. 81	
1/ All LVG-QFCP-RC customers pay a Commodity Charge Rate based upon the Gas Daily Average (GDA) for Transco Zone 6 Non-New York price plus any premiums incurred by Delmarva to provide this service.		

Order No.
Docket No.

Filed: August 29, 2013
Effective with Usage On and After November 1, 2013

Proposed

RATES AND CHARGES

CORE TRANSPORTATION RATE LEAF

<u>SERVICE CLASSIFICATION</u>	<u>BASE RATE</u>	<u>BASIS</u>
<u>General Volume Firm Transportation Service ("GVFT")</u>		
Customer Charge	\$119.07	per month
Delivery Charge		
First 750 CCF	\$0.41487	per CCF Redelivered
Over 750 CCF	\$0.30989	per CCF Redelivered
Balancing Fee Non-Base Rate	\$0.03348	per CCF of Imbalance Volumes
Environmental Surcharge Rider	\$0.00021	per CCF
<u>Medium Volume Firm Transportation Service ("MVFT")</u>		
Customer Charge	\$745.50	per month
Demand Charge	\$ 15.89	per MCF of Billing MDQ
Delivery Charge	\$ 0.50982	per MCF Redelivered
Balancing Fee Non-Base Rate	\$ 0.3348	per MCF of Imbalance Volumes
Environmental Surcharge Rider	\$0.00211	per MCF
<u>Large Volume Firm Transportation Service ("LVFT")</u>		
Customer Charge	\$1,079.80	per month
Demand Charge	\$ 9.78	per MCF of Billing MDQ
Delivery Charge	\$ 0.12264	per MCF Redelivered
Balancing Fee Non-Base Rate	\$ 0.3348	per MCF of Imbalance Volumes
Environmental Surcharge Rider	\$0.00211	per MCF
<u>Standby Service ("SBS")</u>		
Demand Charge Non-Base Rate	\$11.6589	per MCF of Standby MDQ
Commodity Charge		Monthly System WACCOG per MCF (adjusted for losses and unaccounted for)

Utility Facility Relocation Charge For applicability refer to Rider UFRC on Leaf No. 81

Public Utilities Tax: 4.25% Applies to all non-residential services, including the GCR, unless pursuant to Title30 Chapter 55, the Customer is eligible for a different tax rate or is exempt from such tax.

City of Wilmington Local Franchise Tax: 2.00% Charged on all non-exempt Services, in the City of Wilmington, including the GC.

Order Nos.
Docket Nos.

Filed: August 29, 2013
Effective with Usage On and After November 1, 2013

Proposed

RATES AND CHARGES

NON-CORE RATE LEAF

<u>SERVICE CLASSIFICATION</u>	<u>BASE RATE</u>	<u>MIN RATE</u>	<u>MAX RATE</u>	<u>NON-BASE RATE</u>	<u>BASIS</u>
<u>Flexibly Priced Gas Service ("FPS")</u>					
Commodity Charge 1/ No Notice Swing Charge	\$ 0.15000	Varies	N/A		per MCF per MCF Redelivered
<u>Medium Volume Interruptible Transportation Service ("MVIT")</u>					
Customer Charge	\$745.50				per month
Delivery Charge (2)					
Option 1	\$ 1.30000				per MCF Redelivered
Option 2		\$0.01	\$3.27		per MCF Redelivered
Option 3	Negotiable				per MCF Redelivered
Balancing Fee				\$0.3348	per MCF of Imbalance Volumes
<u>Large Volume Interruptible Transportation Service ("LVIT")</u>					
Customer Charge	\$1,079.80				per month
Delivery Charge (2)					
Option 1					
First 5,000 MCF	\$ 1.30000				per MCF Redelivered
Over 5,000 MCF	\$ 0.36000				per MCF Redelivered
Option 2		\$0.01	\$1.00		per MCF Redelivered
Option 3	Negotiable				per MCF Redelivered
Balancing Fee				\$0.3348	per MCF of Imbalance Volumes
<u>Quasi-Firm Transportation Service ("QFT")</u>					
Customer Charge	Negotiable				per Month
Demand Charge	Negotiable				per MCF of MDQ
Delivery Charge (2)	Negotiable				per MCF Redelivered
Balancing Fee				\$0.3348	per MCF of Imbalance Volumes
<u>Public Utilities Tax</u>					
	4.25% Applies to all non-residential services, including the GCR, unless pursuant to Title 30 Chapter 55, the Customer is eligible for a different tax rate or is exempt from such tax.				
<u>City of Wilmington</u>					
<u>Local Franchise Tax</u>				2.00%	Charged on all non-exempt services, in the City of Wilmington, including the GCR

Utility Facility Relocation Charge

For applicability refer to Rider UFRS on Leaf No. 81

1/ Minimum Rate is the monthly system WACCOG plus losses and unaccounted-for, unless gas is acquired specifically for, plus \$0.01 per MCF.

2/ Minimum and maximum rates do not include the applicable \$0.00000/MCF charge on QFT, MVIT and LVIT.

Order No.

Filed: August 29, 2013

Docket No.

Effective with Usage On and After November 1, 2013

Proposed

RIDER "UFRC"
UTILITY FACILITY RELOCATION CHARGE RIDER

A. Purpose

The Utility Facility Relocation Charge (UFRC) is intended to allow Delmarva Power to recover the cost of relocation of existing facilities required or necessitated by Department of Transportation or other government agency projects.

B. Applicability

This Rider is applicable to any Customer served under Service Classifications "RG", "GG", "GL", "MVG", "LVG", "LVG-QFCP", "PM", "GVFT", "MVFT", "LVFT", "SBS", "QFT", "MVIT", "LVIT", "FPS" and "NCR."

The rate is applicable to the portion of the Customer's charges related to the delivery or distribution of gas.

C. Definitions

1. "Eligible Utility Facility Relocations" mean new, used and useful plant or facilities of a gas utility that:

- i. Do not include that portion of any plant or facilities used to increase capacity of or connect to the system to serve new or additional load;
- ii. Are in service; and
- iii. Were not included in the utility's rate base in its most recent general rate case; and which
- iv. Relocate, as required or necessitated by Department of Transportation or other government agency projects without reimbursement, existing Company facilities, including but not limited to, mains, lines and services, whether underground or aerial. For purposes of this section, "existing facilities" and "relocate" include the physical relocation of existing facilities and also include removal, abandonment or retirement of existing facilities and the construction of new facilities in a relocated location.

2. "Pretax return" means the revenues necessary to:

- a. Produce net operating income equal to the Company's weighted cost of capital as established in the most recent general rate proceeding multiplied by the net original cost of eligible utility facility relocations. At any time the Commission by its own motion, or by motion of the Company, Commission staff or the Public Advocate, may determine to revisit and, after hearing without the necessity of a general rate filing reset the UFRC rate to reflect the Company's current cost of capital. The UFRC rate shall be adjusted back to the date of the motion to reflect any change in the cost of capital determined by the Commission through this process;
- b. Provide for the tax deductibility of the debt interest component of the cost of capital; and
- c. Pay state and federal income taxes applicable to such income.

RIDER "UFRC"

UTILITY FACILITY RELOCATION CHARGE RIDER - continued

C. Definitions (continued)

3. "UFRC costs" means depreciation expenses and pretax return associated with eligible utility facility relocations.
4. "UFRC rate" refers to utility facility relocation charge.
5. "UFRC revenues" means revenues produced through a UFRC exclusive of revenues from all other rates and charges.

D. Filing

1. The UFRC rate shall be adjusted semiannually for eligible relocation expenses placed in service during the 6-month period ending 2 months prior to the effective date of changes in the UFRC rate .
2. The effective date of changes in the UFRC rate shall be January 1 and July 1 every year.
3. The Company shall file any request for a change in the UFRC rate and supporting data with the Commission at least 30 days prior to its effective date.
4. The UFRC rate applied between base rate filings shall be capped at 7.5% of the portion of the Customer's charge related to the delivery or distribution of gas, but the UFRC rate increase applied shall not exceed 5% within any 12-month period.
5. The UFRC rate will be subject to annual reconciliation based on a period consisting of the 12 months ending December 31st of each year. The revenue received under the UFRC for the reconciliation period shall be compared to the Company's eligible costs for that period with the difference between revenue received and eligible costs for the period recouped or refunded, as appropriate, over a 1-year period commencing July 1 of each year. If the UFRC revenues exceeded the UFRC eligible costs, such over-collections shall be refunded with interest.
6. The UFRC rate shall be reset to zero as of the effective date of new base rates that provide for the prospective recovery of the annual costs theretofore recovered under the UFRC rate.

RIDER "UFRC"

UTILITY FACILITY RELOCATION CHARGE RIDER - continued

E. Filing (Continued)

7. The UFRC rate shall also be reset to zero if, in any quarter, data filed with the Commission by the Company show that the electric utility will earn a rate of return that exceeds the rate of return established in its last general rate filing or by Commission order as described in paragraph 2.a of this Rider, if such was determined subsequent to the final order in the company's last general rate filing. Further, the UFRC rate shall be reinstated when such data show that the established rate of return is not exceeded and will not be exceeded if the UFRC rate is reinstated and reset.

The UFRC is set forth as follows: 0.00%

Exhibit 2

Delmarva Power & Light Company - Delaware Gas
Development of Gas Delivery Rates - Settlement
Rate Class Allocation of Delivery Revenue Requirements
Equal % Increase except LVG-QFCP at Cost Recovery

Exhibit 2
Page 1 of 8

	TOTAL Delaware RETAIL	RESIDENTIAL + RESIDENTIAL SPACE HEATING	GENERAL SERVICE	MEDIUM VOLUME SERVICE	LARGE VOLUME SERVICE	LIGHTING SERVICE	LARGE VOLUME QFCP SERVICE
Annualized Current Delivery Revenue	\$ 70,926,742	\$ 46,209,729	\$ 18,142,050	\$ 3,380,079	\$ 3,118,073	\$ 811	\$ 76,000
Target Change (%)	\$ 6,800,000 9.59%	\$ 4,175,929 9.04%	\$ 1,639,480 9.04%	\$ 305,454 9.04%	\$ 281,777 9.04%	\$ 73 9.04%	\$ 397,287 522.75%
Proposed Revenue	\$ 77,726,742	\$ 50,385,657	\$ 19,781,530	\$ 3,685,533	\$ 3,399,850	\$ 885	\$ 473,287
Rate Design Revenues	\$ 77,726,356 9.59%	\$ 50,385,684 9.04%	\$ 19,781,347 9.04%	\$ 3,685,302 9.04%	\$ 3,399,850 9.04%	\$ 885 9.04%	\$ 473,287 522.75%
Revenue Change based on Annualized Current Revenue (%)	\$ 6,799,614	\$ 4,175,955	\$ 1,639,297	\$ 305,224	\$ 281,777	\$ 73	\$ 397,287
Rate Design Revenue Change							
Check \$	\$ (386)	\$ 27	\$ (182)	\$ (231)	\$ -	\$ (0)	\$ 0

Delmarva Power & Light Company - Delaware Gas
Development of Gas Delivery Rates - Settlement
Residential Gas Service Rate Design

Exhibit 2
Page 2 of 8

Total \$ 50,385,657

Rate Element	Test Year		Test Year		Proposed Rate	Proposed Revenue	
	Billing Determinants	Existing Rate	Existing Revenue	Billing Determinants			
Customer Charge (\$ per month)	1,372,176 \$	10.40 \$	14,270,630 \$	1,372,176 \$	11.34 \$	15,560,476 \$	9.04%
First 50 CCF Commodity Rate	38,738,328 \$	0.45802 \$	17,742,929 \$	38,738,328 \$	0.49941 \$	19,346,308 \$	9.04%
Winter Over 50 CCF Commodity Rate	38,624,828 \$	0.36754 \$	14,196,169 \$	38,624,828 \$	0.40075 \$	15,476,900 \$	9.04%
Total			\$ 46,209,729			\$ 50,385,684	

Delmarva Power & Light Company - Delaware Gas
Development of Gas Delivery Rates - Settlement
General Gas (GG) Service Rate Design
General Volume Firm Transportation (GVFT) Service

Exhibit 2
Page 3 of 8

Total \$ 19,781,530

Rate Element	Test Year		Test Year		Proposed Rate	Proposed Revenue	
	Billing Determinants	Existing Rate	Existing Revenue	Billing Determinants			
Customer Charge (\$ per month)							
GG	112,082	\$ 29.71	\$ 3,329,956	112,082	\$ 34.17	\$ 3,829,450	15.00%
GVFT	829	\$ 328.88	\$ 272,642	829	\$ 119.07	\$ 98,711	9.04%
			\$ 3,602,598			\$ 3,928,161	
First 750 CCF Commodity Rate	20,520,138	\$ 0.38049	\$ 7,807,707	20,520,138	\$ 0.41487	\$ 8,513,190	9.04%
Over 750 CCF Commodity Rate	23,685,814	\$ 0.28421	\$ 6,731,745	23,685,814	\$ 0.30989	\$ 7,339,997	9.04%
			\$ 14,539,452			\$ 15,853,186	
Total			\$ 18,142,050			\$ 19,781,347	

Delmarva Power & Light Company - Delaware Gas
Development of Gas Delivery Rates - Settlement
Medium Volume Gas (MVG) Service Rate Design
Medium Volume Firm Transportation (MVFT) Service

Exhibit 2
Page 4 of 8

Total \$ 3,685,533

Rate Element	Test Year Billing Determinants	Existing Rate	Existing Revenue	Test Year Proposed Rate	Proposed Revenue	
MVG						
Customer Charge (\$ per month)	209 \$	456.12 \$	95,329 \$	670.50 \$	140,134	47.00%
Demand MDQ MCF Rate	51,024 \$	14.570 \$	743,420 \$	15.890 \$	810,771	9.06%
Commodity MCF Rate	237,387 \$	0.46757 \$	110,995 \$	0.50982 \$	121,025	9.04%
			<u>\$ 949,744</u>		<u>\$ 1,071,930</u>	
MVFT						
Customer Charge (\$ per month)	473 \$	755.30 \$	357,257 \$	745.50 \$	352,620	-1.30%
Demand MDQ MCF Rate	101,640 \$	14.570 \$	1,480,895 \$	15.890 \$	1,615,060	9.06%
Commodity MCF Rate	1,266,512 \$	0.46757 \$	592,183 \$	0.50982 \$	645,693	9.04%
			<u>\$ 2,430,335</u>		<u>\$ 2,613,373</u>	
Total			<u>\$ 3,380,079</u>		<u>\$ 3,685,302</u>	9.03%
Customer Charge Differential	\$ 75.00					

Rate Element	Test Year Billing Determinants	Existing		Test Year Proposed	
		Rate	Revenue	Rate	Revenue
LVG					
Customer Charge (\$ per month)	- \$	690.36 \$	-	1,004.80 \$	-
Demand MDQ MCF Rate	- \$	8.970 \$	-	9.780 \$	-
Commodity MCF Rate	- \$	0.11248 \$	-	0.12264 \$	-
		<u>\$</u>	<u>-</u>	<u>\$</u>	<u>-</u>
LVFT					
Customer Charge (\$ per month)	218 \$	989.53 \$	215,718	1,079.80 \$	235,397
Demand MDQ MCF Rate	271,624 \$	8.97000 \$	2,436,467	9.780 \$	2,656,483
Commodity MCF Rate	4,141,961 \$	0.11248 \$	465,888	0.12264 \$	507,970
		<u>\$</u>	<u>3,118,073</u>	<u>\$</u>	<u>3,399,850</u>
Total		\$	3,118,073	\$	3,399,850
					9.04%

Delmarva Power & Light Company - Delaware Gas
 Development of Gas Delivery Rates - Settlement
 Gas Lighting Sales Service (GL) Rate Design

Exhibit 2
 Page 6 of 8

Total \$ 885

Rate Element	Test Year		Test Year		Proposed Revenue	Proposed Rate	Proposed Revenue	Proposed Rate
	Billing Determinants	Existing Rate	Existing Revenue	Test Year Proposed Rate				
Customer Charge (\$ per month)	126 \$	6.44 \$	811	7.02 \$	885	9.01%		

Total \$ 811 \$ 885

Delmarva Power - Delaware Gas
 Development of Gas Delivery Rates - Settlement
 Large Volume Gas - Qualified Fuel Call Provider (LVG - QFCP) Service Rate Design

Exhibit 2
 Page 7 of 8

Total		\$ 473,287	
Rate Element	Test Year Billing Determinants	Test Year	
		Existing Rate	Existing Revenue
LVG-QFCP			
Customer Charge (\$ per month)	24	\$ 3,166.67	\$ 76,000
Demand MDQ MCF Rate	65,232	\$ -	\$ -
Commodity MCF Rate		market-based rate	
Total			<u>\$ 76,000</u>
			<u>\$ 473,287</u>

Development of Gas Delivery Rates - November Filing
Medium Volume Interruptible Transportation (MVIT) Service
Large Volume Interruptible Transportation (LVIT) Service

Total Proposed \$ 792,427
Total Collected \$ 727,919 -8.14%

Rate Element	Test Year		Test Year	
	Billing Determinants	Existing Rate	Proposed Rate	Proposed Revenue
MVIT				
Customer Charge (\$ per month)	60	\$ 590.00	\$ 745.50	\$ 44,730 26.36%
Commodity (ccf Rate - Option 1)	1,995,360	\$0.13000	\$ 0.13000	\$ 259,397 0.00%
Commodity (ccf Rate - Option 2)	252,910	\$0.32700	\$ 0.32700	\$ 82,702 0.00%
				<u>\$ 386,828</u>
LVIT				
Customer Charge (\$ per month)	48	\$ 775.00	\$ 1,079.80	\$ 51,830 39.33%
Commodity (ccf Rate - Option 1)	1,021,680	\$0.13000	\$ 0.13000	\$ 132,818 0.00%
First 5000 ccf	3,179,960	\$0.03600	\$ 0.03600	\$ 114,479 0.00%
Over 5000 ccf				
Commodity (ccf Rate - Option 2)	419,630	\$0.10000	\$ 0.10000	\$ 41,963 0.00%
				<u>\$ 341,090</u>
Total				<u>\$ 727,919</u>

EXHIBIT "B"

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE**

IN THE MATTER OF THE APPLICATION)
OF DELMARVA POWER & LIGHT COMPANY) PSC DOCKET NO. 12-546
FOR A CHANGE IN NATURAL GAS BASE)
RATES (FILED DECEMBER 7, 2012))

ORDER NO. 8465

AND NOW, this _____ day of _____, 2013

WHEREAS, the Commission has received and considered the Findings and Recommendations of the Hearing Examiner, which is attached hereto as Attachment "A," issued in the above-captioned docket, which was submitted after duly-noticed public evidentiary hearings; and

WHEREAS, the Hearing Examiner recommends that the Commission approve the proposed Settlement Agreement, which is endorsed by all the parties, and which is attached hereto as Attachment "B," and;

WHEREAS, the Commission finds that the proposed rates and tariff revisions are just and reasonable and that adoption of the proposed Settlement Agreement is in the public interest;

NOW, THEREFORE, IT IS HEREBY ORDERED BY THE AFFIRMATIVE VOTE OF

NOT FEWER THAN THREE COMMISSIONERS:

1. That by and in accordance with the affirmative vote of a majority of the Commissioners, the Commission hereby adopts the September 30, 2013 Findings and Recommendations of the Hearing Examiner, attached hereto as Attachment "A."

2. That the Commission approves the Proposed Settlement

Agreement (attached hereto as Attachment "B") and the proposed rates therein, which reflect an additional revenue requirement for Delmarva Power & Light Company ("Delmarva") of \$6.8 million. The revenue requirement amount is based upon a capital structure of 49.22% equity and 50.78% long-term debt, an overall cost of capital of 7.53%.

3. That the final rates will become effective with usage on or after the date of this Order.

4. That the Commission orders that new compliance tariff leaves be developed and filed with the Commission Staff no later than _____, 2013, which shall include the new gas distribution rates and which shall become effective with service on and after _____, 2013.

5. Since the new approved rates are less than the existing distribution rates placed into effect on July 7, 2013 pursuant to 26 Del. C. §306(a)(1), customers will be entitled to a refund of overpayments since Delmarva Power & Light Company's interim rate increase was placed into effect, with interest on the deferred amounts calculated in accordance with Regulation Docket No. 11, which shall reflect Delmarva Power & Light Company's short-term borrowing costs.

6. That this Docket shall remain open for the sole purpose of conducting working group meetings to consider changes to the Company's Natural gas Tariff, as described in the parties' Settlement.

7. That the Commission reserves the jurisdiction and authority to enter such further Orders in this matter as may be deemed necessary or proper.

BY ORDER OF THE COMMISSION:

Chairman

Commissioner

Commissioner

Commissioner

ATTEST:

Alisa Carrow Bentley
Secretary